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THE GRAPHIC REVIEW

Agricultural-Industrial Relations Section
A.A.A.

THE GRAPHIC REVIEW

Income and Prices

The April 1st "Agricultural Situation" points to a prospective increase in income from sales of livestock and their products for the first half of 1935 sufficient to more than offset the decline in crop sales. In addition, rental and benefit payments are expected to be at least double the $149,000,000 paid during the initial half of 1934. On this basis the diminution in farm buying power should be small and business in rural sections well maintained.

Urban consumer income reached new highs on the recovery in January and again in February. The March figure (not shown on accompanying chart) is estimated the same as in January. Except for the September, 1934 reaction, when a cotton textile strike was in effect, purchasing power of urban consumer income has remained virtually flat, at about 90 per cent of the 1924-9 average, since January of last year. Thus the increase in non-farm income has kept pace with increases in the cost of living, notwithstanding an apparent widespread belief to the contrary.

Food prices have remained remarkably stable in recent weeks, advances in meat and vegetable prices having been offset by seasonal declines in dairy and poultry products. Since other elements in the cost of living ordinarily move slowly this means that living costs have advanced little if any since February and are still substantially below the 1931 average.

The index of food prices is still some 14 per cent below its prewar relationship to the total cost of living. Similarly, in March, the farmer's share of consumer expenditures for living (Ratio of farm prices to urban cost of living index) was 24 per cent below the 1910-14 average. Allowance for processing taxes raises the ratio to 85 per cent of the prewar average.

Though farm prices have not yet advanced sufficiently to re-establish the prewar relationship to prices farmers' pay, the rise in wholesale prices of farm and food products has been much sharper than for the non-agricultural group. This situation can but be adverse to industrial activity in consumer goods lines, unless acceleration of activity in the heavy industries is sufficient to prevent a relapse in purchasing power of urban consumers. The improved position of the farmer, of course, tends to bring about such improvement in the heavy lines. The possibility that the laggard capital goods lines may finally be shaking off this lethargy is found in sustained improvement in employment and payrolls in the heavy industries since last November and faint signs of revival in building.

The Gold Situation

During the year 1934 approximately 90 per cent of the world's increase in monetary gold was absorbed by the United States. The increases in devalued dollars were: world, $1,575 million; United States, $1,419 million. This brought our monetary gold stock to 8.4 billion dollars at

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the start of the current year - over 38 per cent of the total for the 50 countries covered by Federal Reserve Reports.

Concentration of gold reserves in an important export nation is not conducive to an early and orderly recovery in world trade. It is well, however, to consider that our piling up of gold reserves is not the impediment to trade it would be were it at the expense of a corresponding reduction in aggregate outside stocks. Nonetheless, a redistribution would be favorable to world-wide betterment in economic conditions. Thus far no signs have appeared that such redistribution is in immediate prospect; in fact, the inflow of gold for the first two months of 1935 ($275,000,000) was at an annual rate in excess of the entire 1934 increment in the world's monetary gold stock. The heavy inflow has continued as indicated by receipt of $81,000,000 in one day last week by the New York Federal Reserve Bank.

Though we have indicated a willingness to give up some of our gold (a small amount has been traded for silver) so long as currency uncertainties among the gold bloc countries continue and war clouds darken the European picture, the balance of gold movement will probably be in our direction. In the meantime, pressure on international prices will continue.

In this connection, it is interesting to note that wholesale commodity prices in terms of gold, according to Norman Crump's index, were at a new low in the United Kingdom in March of this year (62 per cent of the 1931 average). Likewise gold prices in Japan and France, according to latest reports, were at the approximate low points to date. In the United States, recovery, from the low of April 1934, amounts to about 9 per cent. The relatively favorable showing for the United States is due largely to effects of voluntary crop curtailment through efforts of the Agricultural Adjustment Administration, and involuntary reductions because of the drought. The gold price of wholesale commodities other than foods is lower than prior to dollar devaluation.

The unfavorable economic effect of maintaining a free gold standard in face of continued recession in prices is apparent in France where the index of industrial production is almost as low as in mid-1932 whereas recovery in England and the United States has been substantial. It appears all but inevitable that some sort of devaluation will eventually be necessary in most if not all of the European countries now maintaining a free gold standard. So long as this is delayed the conditions favorable to international currency stabilization - establishment of stable relationships in foreign exchange rates and commodity prices - will be absent.

It is not necessarily contradictory to assume that whereas devaluation was advisable, in order to break the downward spiral of domestic prices and stop the devastating effects of continued deflation of property values, currency stabilization will also prove desirable.

The assurances offered by stabilization under the existing plethora of money in the hands of financial institutions would surely result in liberalization of loaning policies. Also the establishment of stable relationships in prices would remove the most obvious cause behind the establishment of international trade barriers - unduly high import tariffs.

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The assurances offered by stabilization under the existing plethora of money in the hands of financial institutions would surely result in liberalization of lending policies. Also the establishment of stable relationships in prices would remove the most obvious cause behind the establishment of international trade barriers - unduly high import tariffs.

No Recovery in International Trade

The effect of trade barriers on international trade is well illustrated by the accompanying chart "World Production and Trade". This shows that there has been practically no recovery in such trade despite a 1932 to 1934 increase in productive activity of 11 per cent (the average for primary production and industrial output). The ratio of the index of volume of international trade to productive activity continued to decline in 1934, losing 4.4 per cent.

In our own case, industrial production increased over 25 per cent from 1932 to 1934, whereas the increase in volume of foreign trade amounted to only 8 per cent.

For agricultural products, exports for the year ended last June were at 83 per cent of the 1910-14 average - a decline from 85 in 1933 and 98 in 1932.

The decline has continued as evidenced by reductions in February export volumes as compared with the same month of 1934 as follows: wheat and flour 68 per cent; leaf tobacco 14 per cent; pork products 54 per cent; fresh apples 31 per cent; and cotton 36 per cent.

It is apparent from the foregoing facts that international trade is not reflecting the improvement in world production. Hence the need for negotiation of trade agreements removing, so far as possible while monetary uncertainties continue an adverse factor, the barriers to the free flow of goods in international commerce.

The Plethora of Money

The recent tumble in interest rates which carried the "official" call rate to an all time low of $\frac{1}{4}$ of one per cent has also been reflected in downward revisions in rates on time loans, bank bills and prime commercial paper. This lends further emphasis to the glut of loanable funds held by the country's banks. Already the Federal Government has been able to arrange for replacement of high interest bearing securities with new issues at savings sufficient to bring the total debt service to a figure below that of 1925 when the debt was only 21 billion dollars as compared with 29 billion now. Corporations are also beginning to take advantage of reduced interest rates by refunding existing indebtedness at substantial savings in service charges. This is a rather effective method of redistribution of income.

Such rates as one per cent on prime commercial loans and small fractions of one per cent on call loans and bankers bills can but reflect an active desire of banks to get their idle funds to work. Of course, we have had a credit situation which apparently justified a revival in commercial loans for many months, but with no effect. The twelve Federal Reserve Banks now report a reserve ratio of better than 72 per cent, with gold holdings alone above 69 per cent of note and deposit liabilities. Certainly it is but a step from the scramble to loan on the best of risks at practically nil to a willingness to expand loans through ordinary commercial channels.

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In our own case, industrial production increased over 25 per cent from 1932 to 1934, whereas the increase in volume of foreign trade amounted to only 3 per cent.

For agricultural products, exports for the year ended last June were at 52 per cent of the 1910-14 average - a decline from 63 in 1932 and 93 in 1929.

The decline has continued as evidenced by reductions in February export volumes as compared with the same month of 1934 as follows: wheat and flour 63 per cent; leaf tobacco 14 per cent; pork products 54 per cent; fresh apples 31 per cent; and cotton 38 per cent.

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The Building Situation

The three months moving average of contract awards turned moderately upward in March, despite a further recession in public works and utilities. Though the amount of recovery has not been great and the length of time which it has been in evidence is short, improvement in the private categories may very well prove of more fundamental significance than the periodic spurt which was brought about during the last half of 1933 through the Government sponsored building program. Should the gains which have appeared continue and additional impetus be afforded later by use of the new 5 billion dollar Federal fund, a real push toward general recovery would result. Except for public works, construction has at no time been a factor in recovery thus far. Coincident with this up-turn in construction the March report of the Labor Department shows the fourth consecutive monthly increase in employment and payrolls in the durable goods industries.

General Business Outlook

In the February Graphic Review attention was called to an apparent of hesitation in the advance of business which had been in evidence since September, 1934 and to the fact that a relapse consuming as much time as other recent ones would last until July. According to the New York Times Weekly index of business, the high for that recovery came in the week ending February 2, 1935. There as yet appears no reason to assume that the moderate decline which has since occurred is over. However, with steel mill operations beginning to show signs of stability, automobile production continuing at a high rate, some acceleration apparent in building activity, retail sales continuing to expand, urban consumer income at a new high on the recovery, and prospects for some effect of new Federal appropriations in prospect within a few months, the chances of a renewed advance in business after the present lull appear good.

The strong upward movement in stock prices which has occurred over the past month is no doubt predicated on expectations of better business ahead. The participation of utilities and rails in this advance, after many months of laggard action of these groups, should improve investment sentiment and could pave the way for a more sustained advance than has been witnessed since the one which culminated in February of last year.

Some important statistical indicators of prices and economic activity are presented below:

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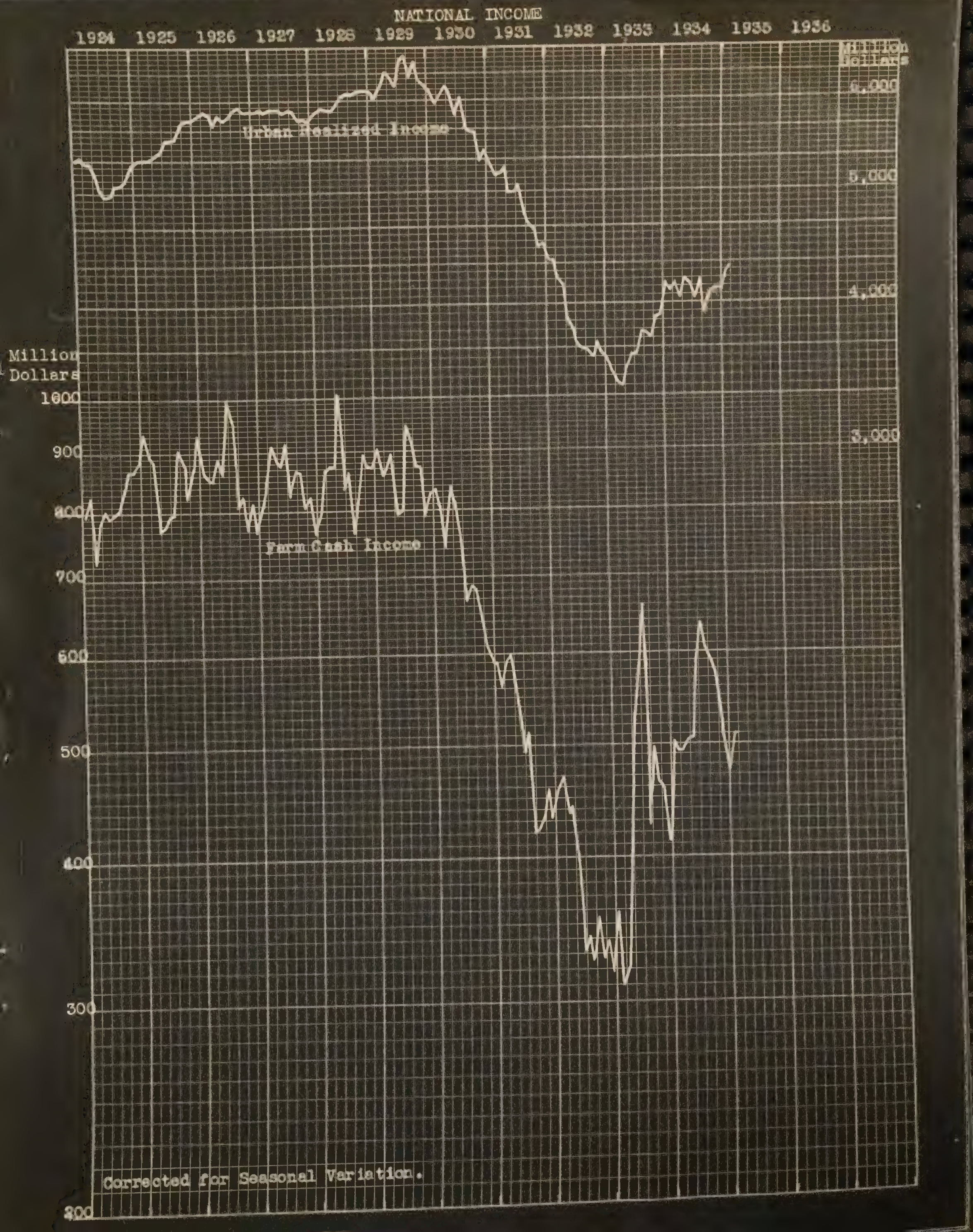
	Key	March 1935 P.	February 1935	March 1934	September (1) 1934	May (2) 1934
Farm Income (with benefits) (3)	a	---	$509	$493 (5)	$590	$507
Urban Income (with relief) (3)	a	$4,239	$4,294	$4,175	$3,939	$4,190
Industrial Activity (F.R.B.) (3)	b	87	89	84	71	86
Department Store Sales (3)	b	80	75	77	76	77
Rural Retail Sales (3)	c	97.5	90.5	79.5	96.8	79.7
Motor Vehicle Output (units)	d	446	359	345	174	352
New passenger car registrations (units)	d	---	171	95 (5)	147	219
Steel ingot production (tons)	d	2,831	2,742	2,761	1,252	3,353
Building Contracts (Dodge)	a	$123	$75	$178	$110	$134
Railway carloadings, cars (4)	d	602	561	615	624	611
Electric power production (4) (kw.)	a	1,722	1,754	1,655	1,620	1,645
Wholesale price, all commodities	e	79.3	79.5	73.7	77.6	73.7
Wholesale price, Farm	e	78.3	79.1	61.3	73.4	59.6
Wholesale price, Food	e	81.9	82.7	67.3	76.1	67.1
Wholesale price, Non-agricultural	e	79.5	79.4	78.2	78.4	76.6
Prices at Farm	f	108	111	84	102	82
Prices paid farmers	f	128	127	120	125	121
Urban cost of living	g	141.7	141.7	136.5	139.7	136.2
U.S. Exports, total (7)	a	$163 (5)	$176 (6)	$163 (5)	$192	$160
U.S. Imports, total (7)	a	$153 (5)	$167 (6)	$133 (5)	$132	$155
73 Countries, exports (8)	a		$871 (6)	$922 (6)	$913	$878
73 Countries, imports (8)	a		$946 (6)	$980 (6)	$923	$961

P. Preliminary

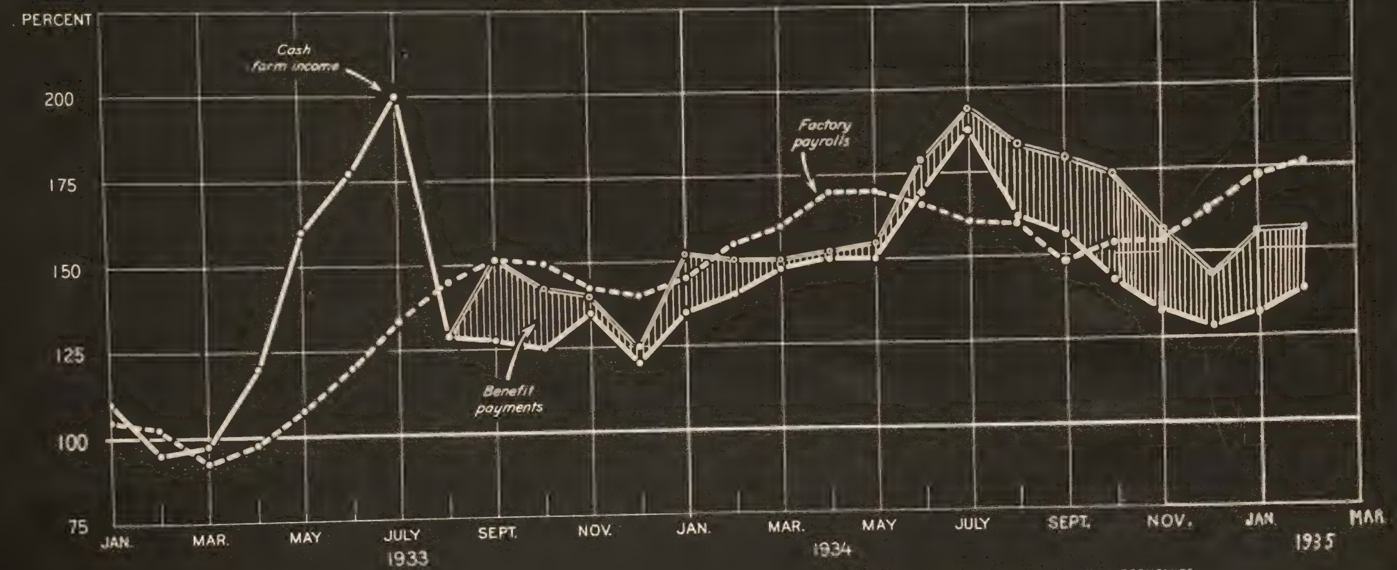
(1) 1934 low of business
(2) 1934 high of business
(3) Adjusted for seasonal variation
(4) Four weeks average
(5) February
(6) January
(7) New dollars
(8) Old gold dollars.

KEY
a - in millions
b - 1923-5 = 100
c - 1929-31 = 100
d - in thousands
e - 1926 = 100
f - 1910-14 = 100
g - 1913 = 100


NATIONAL INCOME
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936
Million Dollars
6,000
5,000
4,000
3,000
Urban Realized Income
Million Dollars
1600
900
800
700
600
500
400
300
Farm Cash Income
Corrected for Seasonal Variation.

FARM INCOME AND FACTORY PAYROLLS SINCE JANUARY 1933

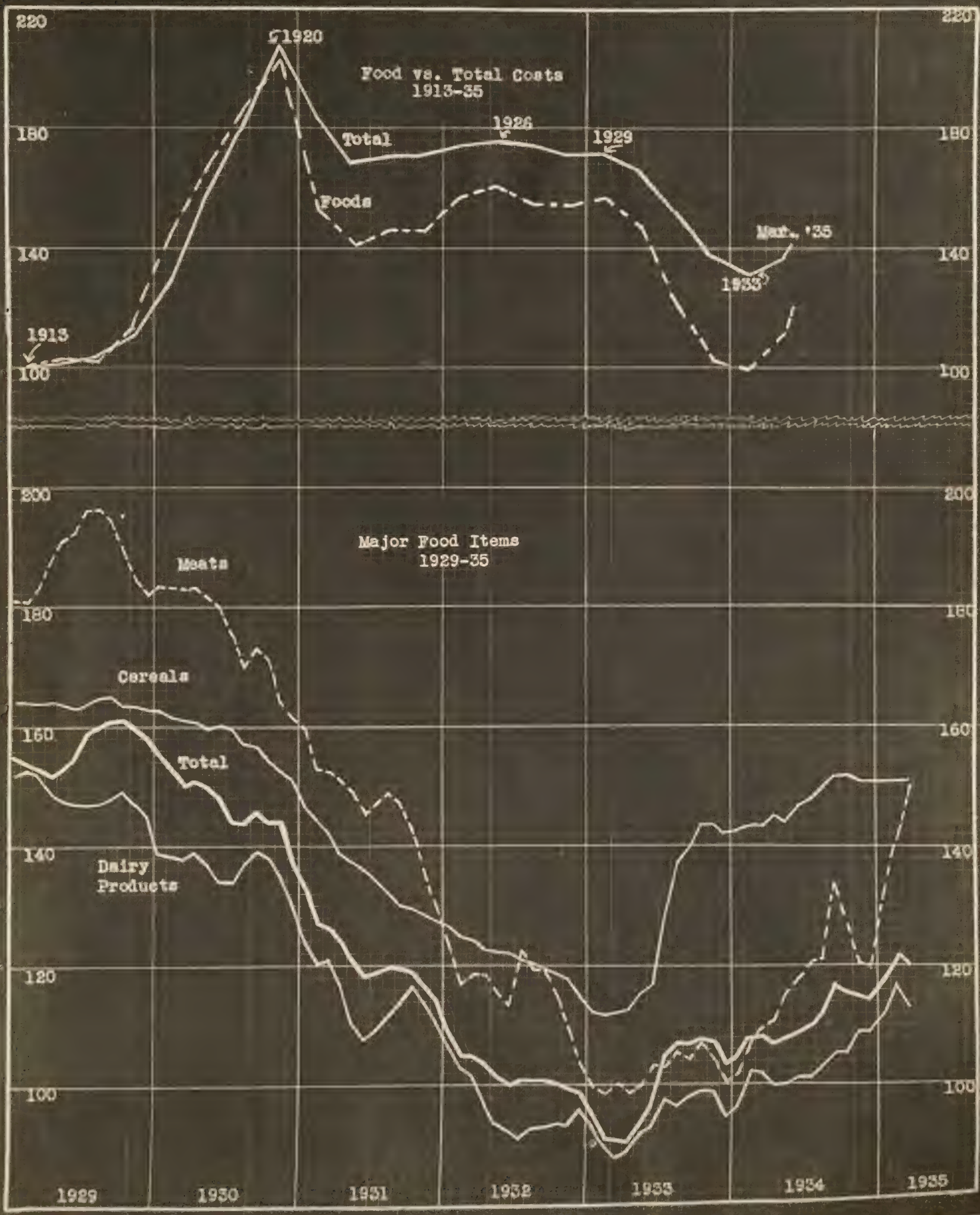
(FIRST QUARTER 1933 = 100)



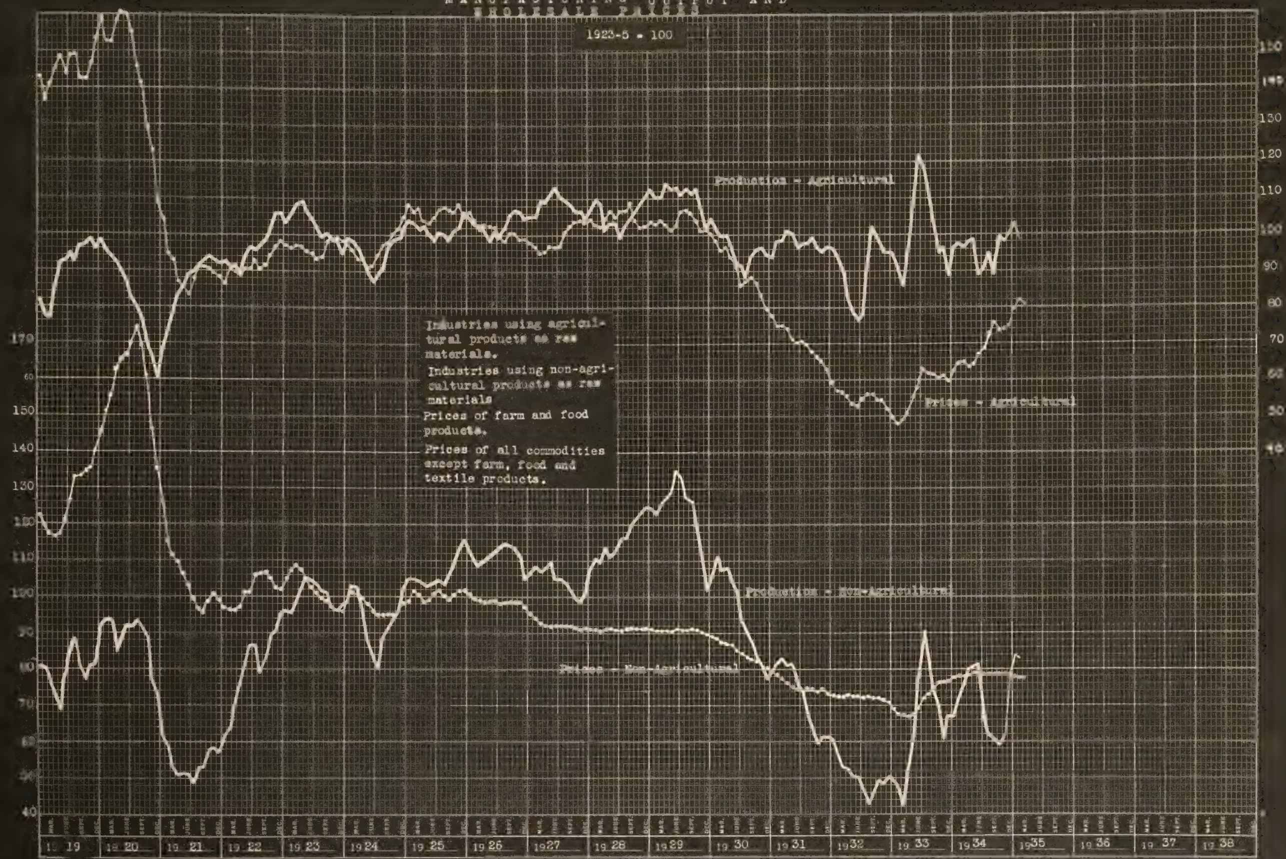
U. S. DEPARTMENT OF AGRICULTURE

NEG. 27547 BUREAU OF AGRICULTURAL ECONOMICS

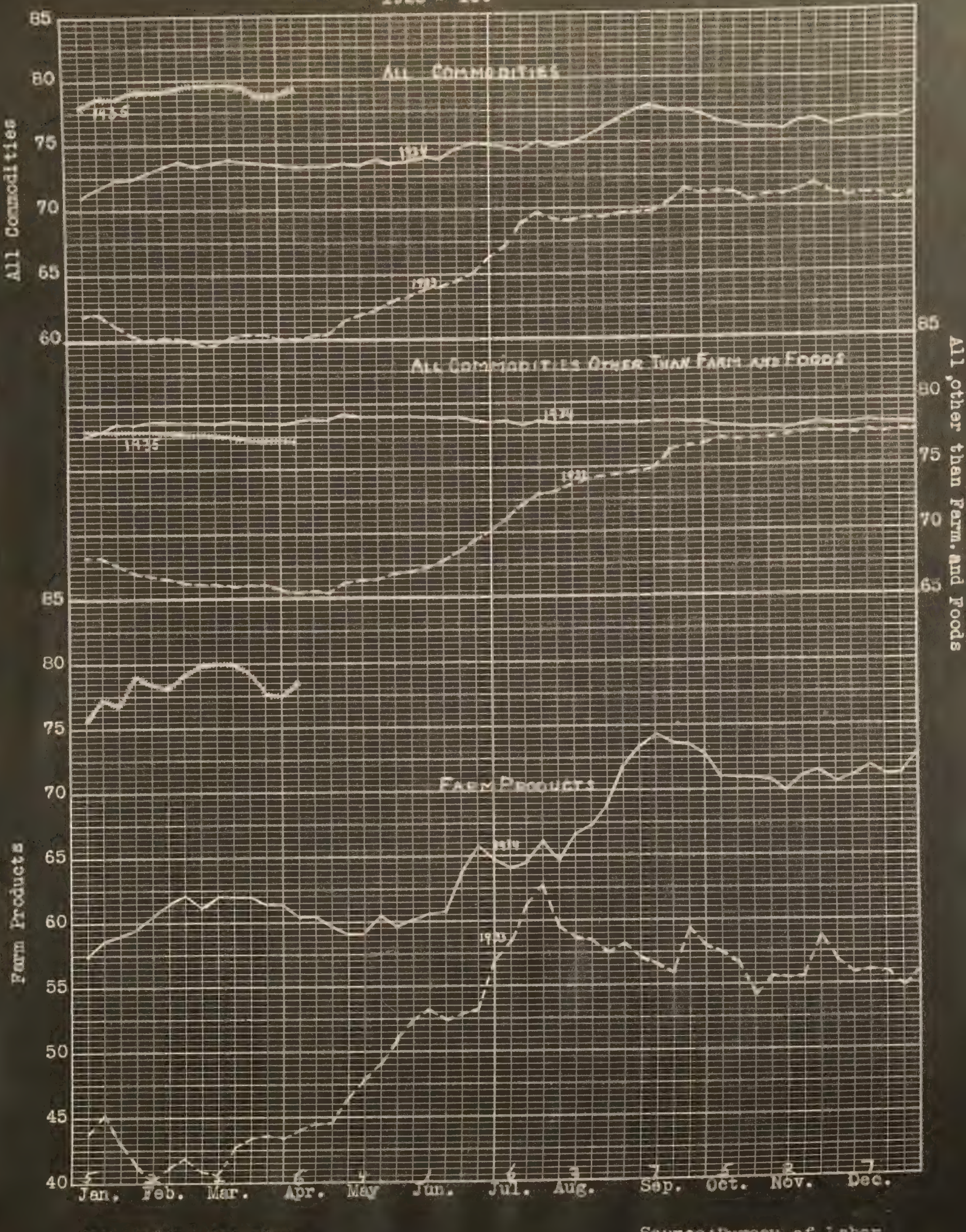
COST OF LIVING COMPARISONS
1913 = 100



MANUFACTURING OUTPUT AND WHOLESALE PRICES



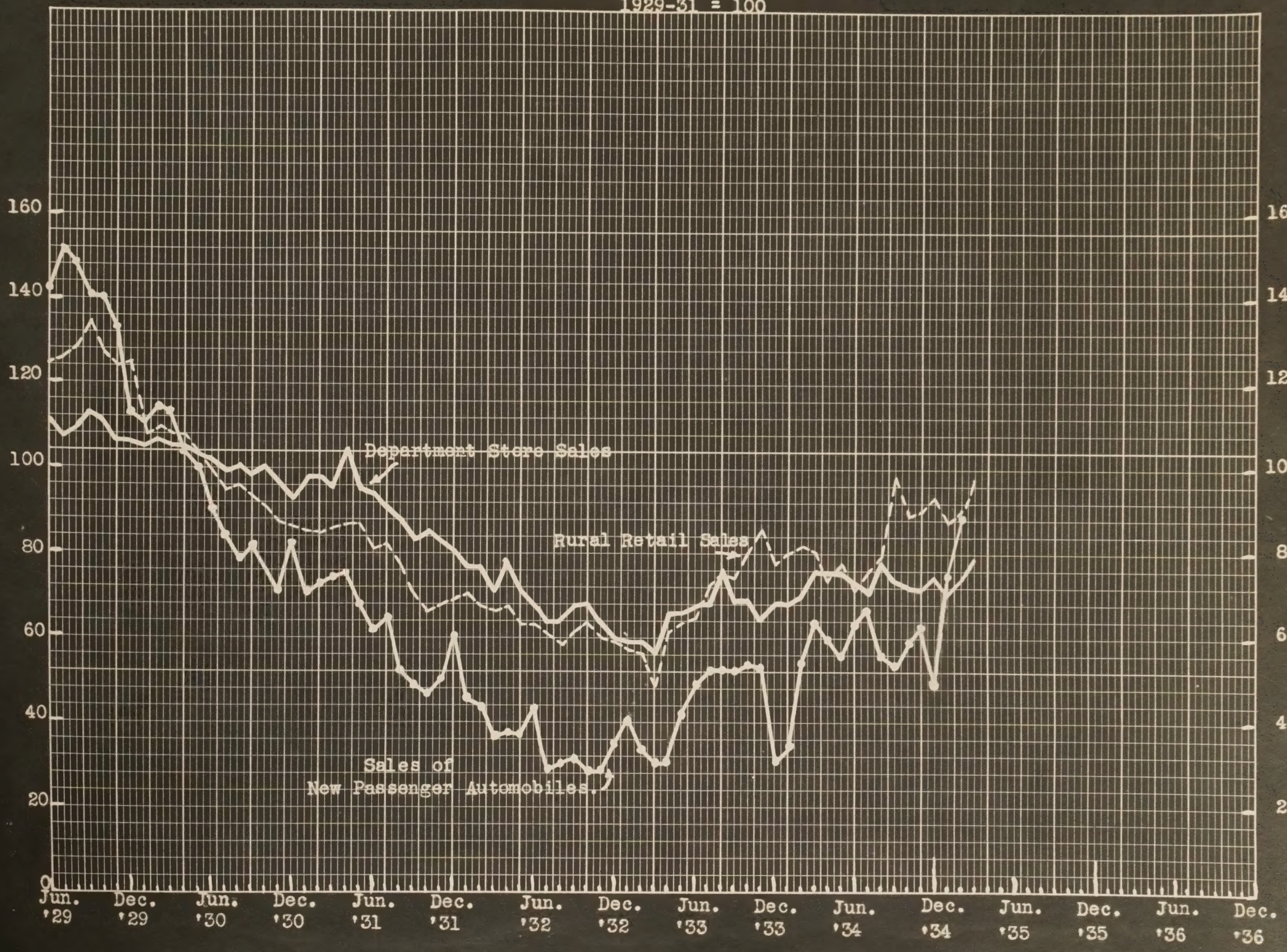
WEEKLY WHOLESALE COMMODITY PRICES
1926 = 100



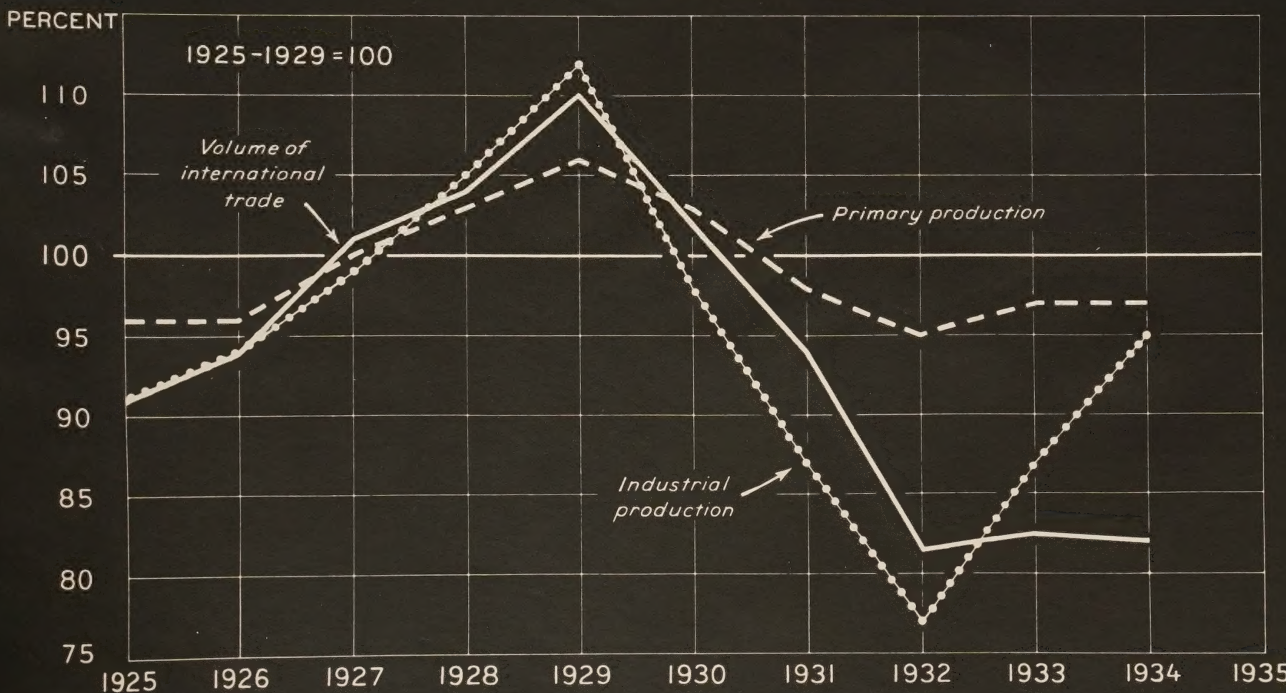
Week ending Saturday.

Source: Bureau of Labor Statistics.

INDEXES OF RETAIL SALES
Adjusted for Seasonal Variation
1929-31 = 100



WORLD PRODUCTION AND TRADE



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